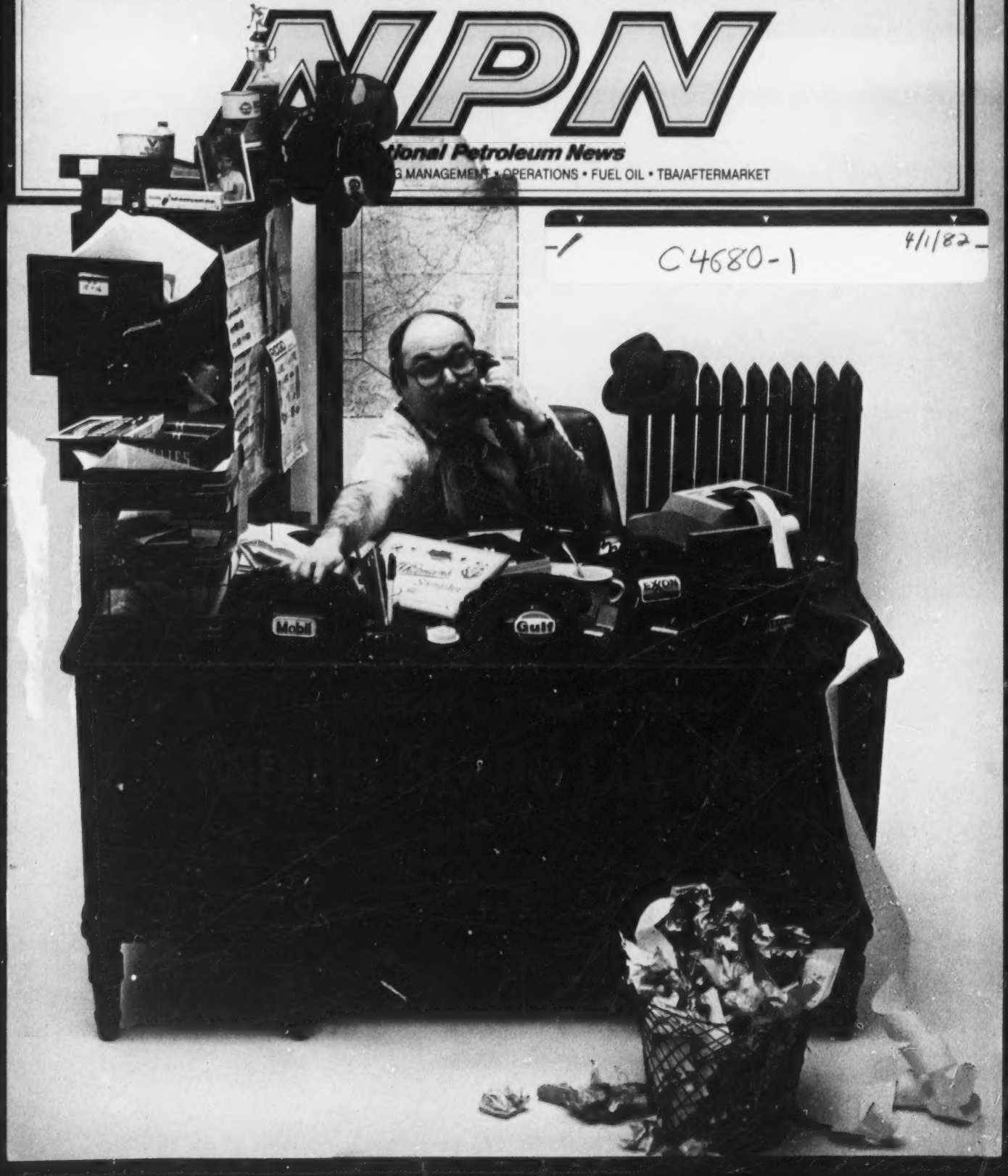
April, 1982 $4.00

Where All the Scary Price Cutting May Bottom Out
How Jobbers Use Oil Futures to Boost Profits
Cardlocks: Forerunner to Total Automation?

NPN
National Petroleum News
MANAGEMENT • OPERATIONS • FUEL OIL • TBA/AFTERMARKET

C4680-1 4/1/82



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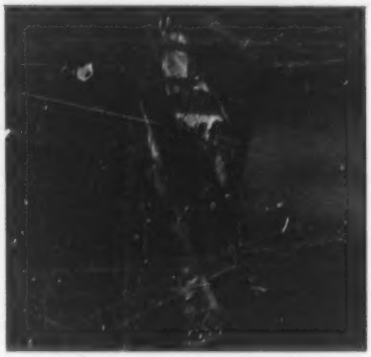
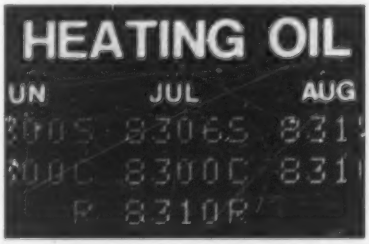


The frantic and almost desperate scramble by jobbers to buy product cheap enough to compete with rock-bottom retail postings is causing a breakdown in traditional branded supplier-jobber relations. Nowadays, a branded distributor may fly more than one flag and have a dozen or more sources of supply. Page 40.

Cover photo by Eric J. Barrick.

One dollar a gallon for regular grade gasoline by Memorial Day, and perhaps the same for unleaded gasoline by Fourth of July. This is what is in prospect for the markets as crude oil surpluses shave prices all over the Middle East, Europe and Latin America. Page 27.



Some jobbers are having success and others recently have been "shaken up" by trades in the oil futures market. As one says, "It is a dangerous market if you don't know what you're doing, but the oil business is dangerous if you don't know what you're doing also." Page 44.

• TRENDS

No Hazy Intentions in Reagan's EPA Planning

If it wasn't clear before, there is little doubt anymore that the Reagan administration means to have a much leaner Environmental Protection Agency (EPA) next year.

In his latest budget request to Congress—covering the 1983 fiscal year that begins in October—President Reagan has proposed to cut EPA spending by as much as 29% over 1981 levels and phase out as many as 2,700 workers, 24% of the current staff.

It's likely that Congress won't go along with cuts as drastic as the White House is seeking. No Republican wants to face the 1982 elections with those kinds of numbers to explain. But what is often overlooked when the budget fights are raging is that whether the cuts are approved as is, or lessened by Congress, they signal the administration's *intentions* better than anything else.

Coupled with public statements by EPA Administrator Anne M. Gorsuch and her top aides, the budget request gives a clear message to the petroleum marketing industry: only the biggest, most dangerous pollution problems will receive EPA attention.

Translated in terms of one of the industry's pressing interests involving EPA—vapor recovery—the administration's message might be read: "So long as the distribution terminal isn't huge, and emission levels aren't way out of line, don't worry, we've bigger fish to fry."

According to Mike Scanlon, a National Oil Jobbers Council VP and former EPA staffer, the so-called Stage I vapor recovery program probably will remain as is. The Stage II program, however, "just isn't going to happen now," he says. In fact, EPA may significantly ease the ozone standard in many areas and thus the need for stringent vapor recovery programs. And, it appears the administration and EPA will be lenient in granting five-year extensions to states for meeting ozone standards, the deadline for which is this year.

That's good news for marketers, who otherwise would face some large expenses under Stage II requirements. The cost of installing necessary hardware could run $12,000 to $20,000 with maintenance as high as $300 a year for each dispenser involved.

Administrator Gorsuch, who ranks only behind Interior Secretary James Watt on the environmentalists' "least liked" list, recently received an angry letter from Rep. Toby Moffett (D-Conn.) after the lawmaker learned that Gorsuch told a small refiner she would use "prosecutorial discretion" if the refiner exceeded lead content standards for gasoline. Because the standards were being reconsidered, Gorsuch said, EPA wouldn't be bothering with them.

EPA spokesman Byron Nelson was later quoted to the effect that "we won't put people out of business who aren't major polluters."

The controversy over lead content is just one area where EPA appears ready to give the industry a break. In a recent speech to a California oil group, Gorsuch and top aides assured the industry that EPA is ready for a "truce" with producers and refiners.

On the issue of toxic substances, which include—or once included—petroleum products ranging from gasoline to petrochemicals, EPA also is pulling back. Donald Clay, the top EPA officer for that area, says budget constraints have forced his office to "narrow its focus" to the minimum required by law. Instead of 2,300 substances, EPA's list of toxic products—those the agency will monitor closely—will be cut back to 250.

While the budget cuts, whatever they finally turn out to be, are cutting staff and financial resources, Congress, especially in the past couple of years, has been asking the agency to do more. Last year alone, lawmakers ordered EPA to administer the "superfund" toxic waste dump clean-up effort and toughened its role in controlling hazardous chemicals (which aren't the same as toxic substances in all cases). In other times, the new jobs would have been cause enough for sizable staff increases.

If it all sounds like welcome news for jobbers who have feared that the cost of meeting EPA's standards might leave just enough cash to hire a good bankruptcy lawyer, there is a dark side that also must be considered.

"What it means," said one top EPA official, "is that we can't police every potential source of pollution. The rules won't be so hard and fast, but while we'll bend a little, we still have the authority and the obligation to execute the laws passed by Congress. We're not going to ignore the law."

For jobbers, that is bound to create some uncertainty and that's just the way EPA wants it. To be safe, those who can do so will meet the agency's deadlines and standards. Those who do not are taking a risk. It will be some time before the extent of that risk is known. —**Tom Goldsmith**

• MARKETPLACE AT A GLANCE

AVERAGE GASOLINE PRICES IN THE U.S. (¢ per gal.)

JANUARY	Gasoline (All types)	Leaded Regular	Unleaded Regular	Leaded Premium
U.S. City Avg.	$1.341	$1.285	$1.358	$1.456
Regions:				
Northeast	1.369	1.318	1.374	NA
North Central	1.322	1.279	1.344	1.411
South	1.316	1.257	1.332	NA
West	1.384	1.311	1.405	1.472

Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

STOCKS (Add 000 bbl.)

	2/26/82	2/27/81
Gasoline (total)	255,779	280,870
Gasoline (unleaded*)	100,136	99,910
Kerosine **	39,746	41,698
Distillates	144,780	171,143
Residual	64,273	80,275

**Included in gasoline total.*
***Includes jet fuel.*
Source: American Petroleum Institute.

MAY 1982

May, 1982 $4.00

Will Arco's Card Move Ignite New Street Fights?

Florida Jobber's Strategy for Buying Out Others

How Experts Convert Small Stations to C-Stores

NPN

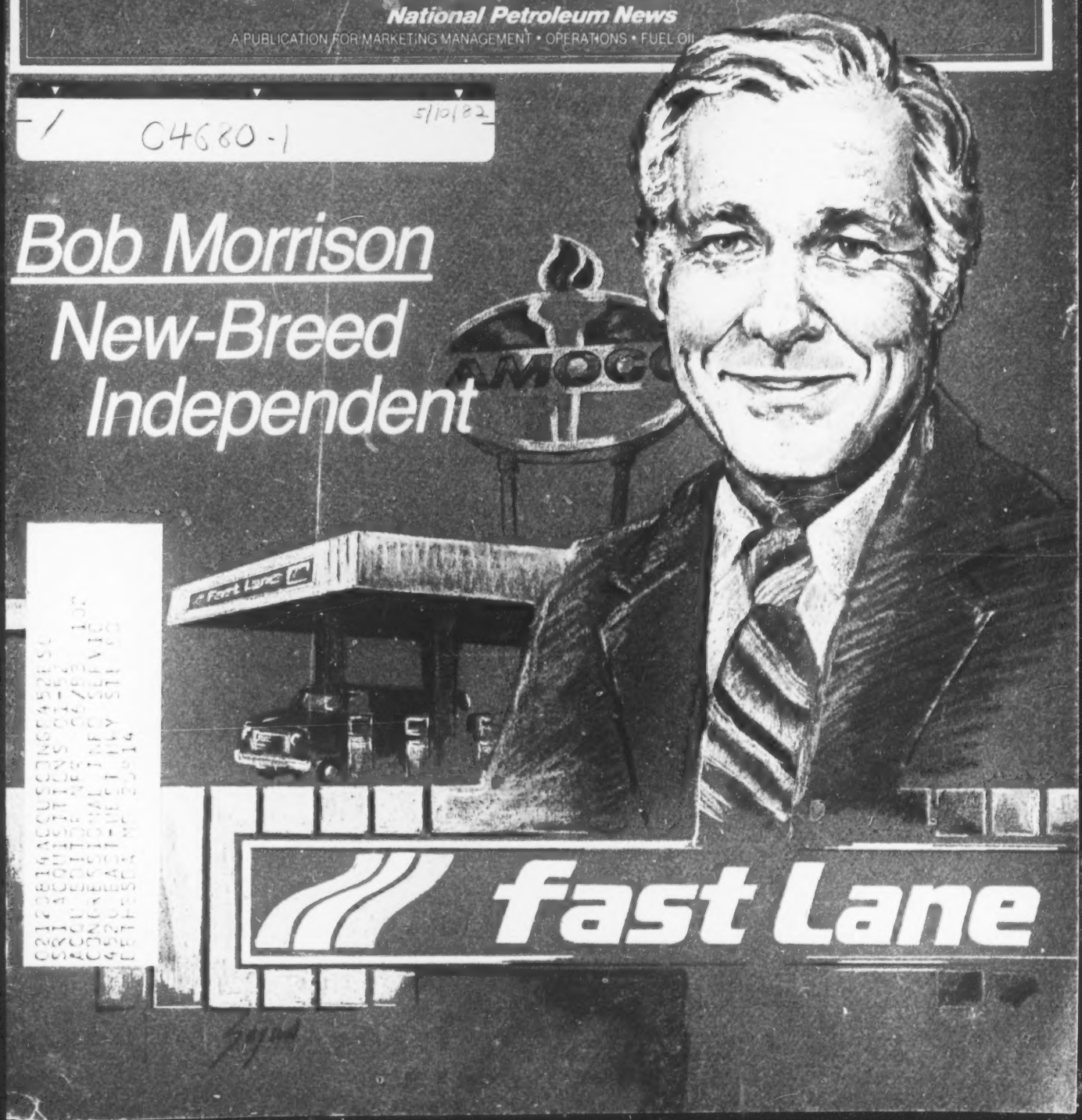
National Petroleum News

A PUBLICATION FOR MARKETING MANAGEMENT • OPERATIONS • FUEL OIL

-1 C4680-1 5/10/82

Bob Morrison

New-Breed Independent



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A new type of independent private-brand oil marketer is emerging from the often turbulent marketplace of the 1980s—one-time branded jobbers who are developing their own brands. One fast-rising newcomer among this current crop of rookie-indies is R. R. (Bob) Morrison, Jr., of Vicksburg, Miss. Page 40.

Cover illustration by John Sejud.

Atlantic Richfield appears to be assuming a new role in the U.S. gasoline market, doffing the cloak of a major and donning the garb of a "superindependent." With elimination of its credit card, other majors are falling all over themselves for Arco's business and figuring new slants for their own card programs. Pages 18 and 31.

Their numbers are dwindling, but there are isolated pockets where tiny jobbers still can make it in oil marketing. Take Joel Strohl, for example, and Pretty Prairie, Kans. Page 48.

• LATE NEWS

Small Refiners Face Grim Prospects in Coming Months

The fallout of older, less efficient refineries could increase dramatically over the next few months, perhaps causing a supply crisis for private-brand independents, some industry sources believe.

Some authorities say that as many as 50 small or older refineries were closed last year following decontrol. The American Petroleum Institute reports 805,715 b/d of capacity had been closed permanently by Dec. 31, 1981. Since then, announcements of refineries for sale have substantially increased.

Large, expensive modernization projects at the big refineries are nearing completion now, which will enable them to process heavier, high-sulfur grades of crude. They will have a raw material cost advantage over refineries which must operate on more expensive light, low-sulfur oil.

Standard Oil of California, for example, expects to complete a $1-billion modernization program at its Pascagoula, Miss., refinery next year. Currently, the company's refineries can run on about 58% heavy crude. When the Pascagoula project is completed, this ratio will increase to 72%.

Cost spreads can range as wide as $4 to $6 bbl. between top-quality light crudes and the heavier grades.

"The refiner who has to operate mostly on light, sweet crude is in for a hell of a time," says a veteran executive. "You are going to see a real shakeout unless something drastic happens to alter the present trend."

There already are indications that some refiners are having a tough time. Hudson Refining Co.'s 19,500 b/d plant in Cushing, Okla., reportedly went down for a routine maintenance "turnaround" in early January and was still down in mid-April. Texaco, meanwhile, is finding little interest in its plants in Casper, Wyo., and Tulsa, Okla.

"The last thing I would want today is a refinery," says a source who has been offered Texaco's Tulsa facility. "I don't need an anchor around my neck."

Supply/Price Firming Trend Considered Temporary 'Blip'

The recent firming of supply and prices in spot markets is probably just a "blip," say some marketers who usually are accurate in forecasting market ups and downs. They don't rule out the possibility, however, that markets could show more strength in the next few months.

Supply suddenly tightened in early April in spot trading at the Texas Gulf Coast and prices jumped several pennies.

"I don't see any changes in what caused the supply glut," says one veteran. "I can see nothing that says we won't have plenty of gasoline. And if we have lots of supply, street prices will remain tough. We won't see retails much over $1 in Texas and $1.10 across the nation for the next several months."

Some sources believe major suppliers, heavy losers in market share the past few months, may have their inventories in better shape now and are ready to slug it out with the independents and unbranded racks.

By mid-April, jobbers in some areas were reporting major brand buying prices below the unbranded racks. In Memphis, Tenn., for example, Shell's jobber price on April 12 reportedly was 81.65¢ for leaded regular while most other majors there were posting 83.25¢. The lowest unbranded rack price in this market at the time was 86.5¢.

Tightening of spot market supplies coincided, to some extent, with the ending of many major company rebate programs in March. Texaco's rebates had been so large that some of its jobbers were able to resell product to non-Texaco marketers at prices lower than such customers could get it elsewhere. With its rebate program ended, spot market trading on Texaco product slowed in early April and lent additional strength to rising Gulf Coast spot prices.

1981 Demand Up in 11 States

Despite the overall decline in gasoline consumption in 1981, 11 states and the District of Columbia recorded increased demand during the 12-month period, according to Federal Highway Administration.

The 1981 roundup showed these states with increases: Alaska, Arizona, Florida, Mississippi, Nevada, New York, North Dakota, Oklahoma, Texas, Utah and Wyoming. The largest increases were those in Alaska (5.7%), Oklahoma (4.2%) and Utah (4.6%).

	1981 Rank	Add 000 gal. 1981 (a)	1980 (b)	% Chng. '81 vs. '80
Alabama	23	1,849,225	1,961,902	-5.7%
Alaska	50	212,804	201,373	5.7
Arizona	28	1,344,438	1,328,722	1.2
Arkansas	33	1,137,998	1,178,800	-3.5
California	1	10,842,862	10,992,050	-1.4
Colorado	26	1,503,658	1,506,415	-0.2
Connecticut	29	1,296,048	1,327,582	-2.4
Delaware	48	290,581	293,851	-1.1
District of Columbia	51	177,658	171,451	0.7
Florida	4	4,845,057	4,810,520	0.7
Georgia	11	2,809,969	2,874,923	-2.3
Hawaii	47	347,848	354,529	-1.9
Idaho	40	471,054	488,333	-3.5
Illinois	6	4,598,012	4,816,780	-4.5
Indiana	12	2,605,584	2,686,146	-3.0
Iowa	27	1,474,733	1,561,192	-5.5
Kansas	31	1,268,708	1,311,181	-3.2
Kentucky	24	1,729,135	1,755,397	-1.5
Louisiana	18	2,006,034	2,081,328	-3.6
Maine	39	497,749	517,014	-3.7
Maryland	21	1,914,423	1,941,209	-1.1
Massachusetts	16	2,249,956	2,301,675	-2.2
Michigan	8	4,014,363	4,274,036	-6.1
Minnesota	19	1,984,982	2,045,270	-2.9
Mississippi	32	1,208,384	1,194,845	1.1
Missouri	14	2,528,616	2,602,627	-2.8
Montana	41	445,641	459,950	-3.1
Nebraska	35	798,018	847,341	-5.8
Nevada	38	508,535	500,286	1.6
New Hampshire	46	358,962	411,214	-3.0
New Jersey	9	3,150,798	3,260,992	-3.4
New Mexico	37	742,486	743,334	-0.1
New York	3	5,674,946	5,668,563	0.1
North Carolina	10	2,874,700	2,932,274	-2.0
North Dakota	43	408,449	407,250	0.3
Ohio	5	4,766,658	4,982,574	-4.3
Oklahoma	20	1,922,403	1,845,259	4.2
Oregon	30	1,271,001	1,330,612	-4.5
Pennsylvania	7	4,471,326	4,735,849	-5.6
Rhode Island	45	368,524	381,826	-3.5
South Carolina	25	1,529,196	1,562,400	-2.1
South Dakota	42	411,024	423,517	-2.9
Tennessee	15	2,388,466	2,417,939	-1.2
Texas	2	8,149,406	8,106,499	0.5
Utah	36	768,450	734,992	4.6
Vermont	49	234,114	238,842	-2.0
Virginia	13	2,530,673	2,599,199	-2.6
Washington	22	1,872,364	1,882,513	-0.5
West Virginia	34	804,632	845,242	-4.8
Wisconsin	17	2,067,800	2,177,363	-5.0
Wyoming	44	375,068	373,723	0.3
U.S. Total		**104,143,151**	**106,448,704**	**-2.2%**

Includes consumption on highway, off-highway and other uses.
(a) Preliminary; (b) Revised and final.

• TRENDS

Highway System Is Oil's Marketplace and Nemesis

Future supply trends and questions they pose for oil marketing strategy could become moot in view of the nation's sagging commitment to highway maintenance and capital spending. Trends in the latter sector are on a course that could relegate the country's motor fuel needs to the family lawn mower in years to come.

Deteriorating highway systems and devalued funding formulas are focusing debate on issues of vital "pocketbook" concern to the oil marketing fraternity. Pressures for "highway user" and motor fuel tax increases are mounting at federal, state and municipal levels, with marketers generally resisting them as inimical to their own sales programs. However, the highway problem is shaping up as an oil market dilemma of the "pay me now, or pay me later" variety. The costly options, according to expert testimony, appear to be equally undesirable and inescapable.

The urgency of the situation is made plain in a bottleneck of policy confusion at the federal level. Warned Transportation Secretary Drew Lewis at recent congressional hearings, "We're going to see a geometric deterioration of our transportation system if we don't obtain additional funding." His statement followed by weeks President Reagan's tentative consideration and dismissal of a 4¢ or 5¢ increase in the federal gasoline tax, opting instead to transfer the existing 4¢ tax and its programs to the states. Now, however, Lewis is back in the halls of Congress appealing for a nickel increase. And the idea, rejected just months ago, is picking up steam in the administration [see page 36].

Some of the data that transportation officials and Congress have been exposed to lately should be alarming to the oil industry. Its big-ticket refined products, gasoline and diesel fuel, are directly at stake because of the implications for motoring and highway use.

A comprehensive study recently released by General Motors Research Laboratories (GMR) indicates starkly how conditions on interstate, arterial and collector highway systems (1.1-million miles of roadway) have declined since 1975 because maintenance funding has lagged needed levels of spending. It is the first research to establish a technical basis—"a discrete time, discrete state Markov chain model"—for estimating current and future highway conditions and the level of spending required to preserve and restore the systems.

In 1981, according to GMR, capital improvements costing $40.1-billion would have been required to restore all highway systems to 1975 conditions; $14.5-billion would have been needed just to preserve 1980 conditions. Actual 1981 capital improvement spending was in the neighborhood of only $7.5-billion. If current expenditure trends continue through 1985, says GMR, it will then cost $119-billion (about one-sixth the annual U.S. budget) to restore highways to 1975 levels.

The gap, based on current levels of funding by all governments, is getting wider due to inflation and real highway cost increases on the one hand, and declining tax revenues caused by higher auto fuel economy, less travel and mounting alcohol-fuel tax exemptions on the other. By 1985, predicts GMR, expected highway spending of $8.1-billion will represent just 30% of the funds required to improve 26,000 miles of roadway that year.

Already, though, such projections may be outmoded because the states have been acting fast in the past 18 months to cut this gap. A record for such legislation was set last year when 22 states enacted gasoline and other motor fuel tax increases [NPN—Feb. p29]. So far in 1982, bills to raise motor fuel taxes have been introduced in 18 states, six of which passed similar measures in 1981, according to the Highway Users Federation.

All of the increases in these various state taxes are the biggest thorn in the side of oil marketers who must pass them along to customers and suffer any resulting volume declines. But with the worsening financial potholes in highway budgets at every level, those who advocate higher motor fuel excise taxes to bridge the gap are gaining influence, and not just outside the industry.

"This nation's roads are a most important part of our economic health," says one small California refiner. "The 'highway user taxes' are one of the few taxes where the public actually has the tax dollars spent in a designated area, and you really can measure the return versus the outlay."

A case can be made that one measure of health of future motor fuel markets will be the state of the nation's highway system. The industry may want to give greater weight to the long-term returns on investment that gasoline taxes represent before balking too stridently at increases in current outlays. "You can't have a first class economy," says a Highway Users Federation executive, "with a second class road system."

—Ron Landry

• MARKETPLACE AT A GLANCE

AVERAGE GASOLINE PRICES IN THE U.S. (¢ per gal.)

FEBRUARY	Gasoline (All types)	Leaded Regular	Unleaded Regular	Leaded Premium
U.S. City Avg.	$1.318	$1.260	$1.334	$1.438
Regions:				
Northeast	1.350	1.396	1.356	NA
North Central	1.301	1.258	1.321	1.399
South	1.292	1.233	1.309	NA
West	1.353	1.276	1.374	1.451

Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

STOCKS (Add 000 bbl.)

	3/26/82	3/27/81
Gasoline (total)	250,362	283,206
Gasoline (unleaded*)	97,841	100,536
Kerosine **	43,870	43,862
Distillates	128,599	163,767
Residual	58,091	78,457

**Included in gasoline total.*
***Includes jet fuel.*
Source: American Petroleum Institute.

Ashland Proclaims Gasohol Alive and Well

Far from being dead as an industry and forgotten as a product, gasohol is not only alive and well but on a revived binge, according to Dan C. Greer, vice president of Kentucky independent Ashland Oil.

Addressing the National Petroleum Refiners Assn. meeting in San Antonio, Tex., in mid-March, Greer made this up-and-at-'em comment:

"Press reports predicting the demise of gasohol have been based on a misinterpretation of technology and market trends.

"Because the name 'gasohol' has largely been replaced by such terms as 'super unleaded with ethanol,' many recent reports have incorrectly linked the obsolescence of the name to that of the product.

"A second misconception is that poor market penetration of fuel ethanol in several states not offering alcohol tax incentives is evidence of widespread consumer dissatisfaction. Actually, fuel ethanol distributors have simply shifted marketing priorities toward the 19 states currently offering alcohol incentives with remarkable success."

The truth, said Greer, is that the ethanol industry is healthy and growing. He gave this summation:

"The recent completion of 88-million gal. of capacity in the Midwest should increase ethanol-enhanced fuel sales dramatically. By 1983, it is expected that at least 328-million gal. of capacity, not including small producers, will be on-line.

"This amount represents a tripling of today's aggregate capacity and will ensure product availability and a competitive market. Other facilities which received initial government funding approval but have not started construction total 420-million gal.

"The current strength of fuel ethanol demand in conjunction with this growing supply promises to boost long-term price stability of corn [the major ethanol feedstock] relative to that of petroleum and is likely to improve ethanol's competitiveness in the future."

The Ashland executive discussed the role of his company in the ethanol world and came up with the following conclusions:

- When blended at terminals, ethanol produces a super unleaded grade which can improve retail margins and station volumes. Terminal blending is most feasible in states offering alcohol tax incentives.
- Ethanol has higher research and motor octane blending values than MTBE or toluene; hence, ethanol's value in the marketplace should approximate or exceed those of MTBE or toluene.

Ethanol-Enhanced Fuel Economics And Comparison with Conventional Gasoline

Basis: 34/gallon state alcohol tax incentive

Source: Ashland Oil, Inc.

	91-Octane Premium Unleaded	87-Octane Regular Unleaded	90-Octane Super Unleaded With Ethanol: Premium Product, Low Volume Case	90-Octane Super Unleaded With Ethanol: Regular Product, High Volume Case
Unleaded Gasoline				
Regular @ 1.00¢/gal.	—	100¢/gal.	90¢/gal.	90¢/gal.
Premium @ 1.04¢/gal.	104¢/gal.	—	—	—
Ethanol @ 1.70¢/gal.	—	—	17¢/gal.	17¢/gal.
Price at Terminal, ex. tax	104¢/gal.	100¢/gal.	107¢/gal.	107¢/gal.
Federal Excise Tax	4¢/gal.	4¢/gal.	0	0
State Tax @ 10¢/gal.	10¢/gal.	10¢/gal.	7¢/gal.	7¢/gal.
Distributor Haul	1¢/gal.	1¢/gal.	1¢/gal.	1¢/gal.
Dealer Cost, inc. tax	119¢/gal.	115¢/gal.	115¢/gal.	115¢/gal.
Dealer Margin	10¢/gal.	6¢/gal.	9¢/gal.	6¢/gal.
Retail Price	129¢/gal.	121¢/gal.	124¢/gal.	121¢/gal.

Greer's analysis, presented to the refiner group with the data above, is in keeping with recent promotional statements by the big alcohol producers, chief among them Archer Daniels Midland (ADM). In its second quarter report to share-holders dated Feb. 26, ADM showed record sales for the period ending Dec. 31 with a 40% gain in volume over the previous quarter. And, January-February sales were "significantly better than those reported on second quarter volume," according to ADM's marketing manager Edward Harjehausen.

Generating the increased alcohol sales is "the limited availability of refiner produced high octane fuels," concludes the alcohol producer. **NPN**